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C O N F I D E N T I A L SANAA 001923

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TAGS: [EAID](#) [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [YM](#)

SUBJECT: YEMEN PUSHING FULL STEAM AHEAD ON GAS PRODUCTION

REF: A. SANAA 1817

[1](#)B. SANAA 1461

Classified By: Ambassador Stephen A. Seche, for reasons 1.4(b) and (d)

[1](#)1. (C) SUMMARY: Construction of the Yemen Liquefied Natural Gas Project (YLNG) is near completion and YLNG expects to export natural gas in the second quarter of 2009. The ROYG Ministry of Oil and Minerals is also eyeing other oil production and exploration blocks for additional supplies of natural gas, and is pushing to amend some production sharing agreements. Yemen is looking to diversify its economy away from consumption of diesel to other reliable alternate energy supplies, including Liquefied Propane Gas (LPG) and natural gas, but will first need to develop its market's infrastructure to consume LPG and natural gas. In any case, LNG production will not be the palliative for the Yemeni economy that the ROYG hopes it will. END SUMMARY

ROUNDING THIRD AND HEADING FOR HOME  
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[1](#)2. (U) Yemen Liquefied Natural Gas Company (YLNG) Deputy General Manager Karim Abuhamad informed Econoff on October 8 that the YLNG Project is 85 percent complete, the oil pipeline between the Block 18 gas field and the Balhaf liquefaction plant is 95 percent complete, and that the Balhaf plant is 76 percent complete. He said that YLNG will now begin construction of the upstream gas drilling facilities in Block 18. Abuhamad told Econoff that the first 14 cargoes of natural gas will be exported to South Korea during June-July 2009 and that another 18 cargoes will be exported to the United States in September 2009. He expects the YLNG Project to generate revenues of USD 512 million by the end of 2009. He optimistically remarked that the YLNG Project "is on third base and coming home." (Note: Deputy Finance Minister Ali Shatter is less optimistic than Abuhamad, saying in an October 4 meeting that the YLNG Project would garner only USD 180 million in 2009, only partially offsetting the loss in oil revenues as a result of the decline in the value of a barrel of oil (ref A) End note.)

ROYG PUSHES TO INCREASE GAS PRODUCTION AND AMEND PSA'S  
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[1](#)3. (C) The ROYG is very interested in drilling for gas in a number of oil production blocks. In an October 13 meeting with Econoff, the Chair of the Petroleum Exporting and Production Authority (PEPA), Ahmed Abdillah, told Econoff that the governorates of Shabwa, Marib and al-Jawf have high potential for significant gas deposits. He said that natural gas deposits have been found in Occidental Block 20 (Marib-al-Jawf), Occidental Block S-1 (Shabwa) and Canadian Nexen Block 51 (Hadhramout). He noted that the ROYG Ministry of Oil and Mineral Resources (MOM) has been communicating with Parliament's Oil Committee to insert 4 or 5 natural gas provisions/articles in the new production sharing agreements (PSAs) of these three oil blocks. Abdillah also indicated that approximately 500 billion cubic feet of associated gas is located in Total Block 10 (Hadhramout). Total General Manager Martin Deffontaines informed Econoff on November 5 that Total is producing about 20 million cubic feet of

natural gas per day in addition to its oil production.

¶4. (C) Other significant gas blocks are located in Gallow Oil Block 13 and CCC Block 33 in the Mahara Governorate, according to Abdillah. He said that the MOM is lobbying the Parliament and the international oil companies to amend the PSA for Blocks 10, 13 and 33, since it contains no natural gas production/provisions. (Note: PSAs in the past in Yemen contained no natural gas articles/provisions, since gas is normally a waste product of oil drilling. End note). Yemen Gas Company Executive Managing Director Anwar Hassan told Econoff on October 21 that he expects the ROYG to complete negotiations with the international oil companies on amending the PSA's in two-to-three months time.

¶5. (C) The ROYG's big push for amending PSA's has affected other oil producing blocks, including Jannah Hunt Oil Block 5 (in Shabwa). Jannah Hunt Oil General Manager Mike Graham complained to Econoff on October 8 that the MOM would not let Jannah Hunt Oil drill any new development wells in Block 5 until it agrees to build a new LPG plant, which is "outside the terms of the current PSA." Graham said that by producing LPG, Jannah Hunt oil would lose USD 19 million in revenues. One of the main reasons for the ROYG's interest in increased LPG production, according to Hassan, is to help alleviate shortages in LPG supplies. Hassan said that current LPG demand is 740,000 metric tons per year and the ROYG plans to build a new LPG plant at the Marib refinery, which should increase LPG output by 800 metric tons per day by the end of ¶2009.

#### YEMEN PREPARES FOR DOMESTIC CONSUMPTION OF GAS

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¶6. (C) One speedbump in Yemen's quest to increase production of LPG and natural gas is that the domestic market is not fully set up for consumption of LPG and natural gas. For example, electricity generators, agricultural machinery and the transportation networks still run on diesel (ref B). Deffontaines commented that Yemen does not yet contain a gas network and that oil companies need to find a significant amount of natural gas in order for production to be economical and attract demand. Abdillah admitted that PEPA's target is to develop the domestic Yemeni market for gas. He said that PEPA has met with a number of businessmen involved in electricity generation, the petrochemical industry and transportation in order to encourage them to invest in gas consumption infrastructure in their respective companies. Abdillah noted that there was a lot of interest from investors both in Yemen and the Gulf.

#### GAS AS AN ALTERNATE ENERGY SOURCE FOR YEMEN'S ECONOMY

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¶7. (C) One motive behind the ROYG's push to increase production of LPG and natural gas is to ensure a reliable and inexpensive source of energy for its domestic market and to diversify away from other sources of energy, like diesel. (Note: Yemen experienced severe shortages of diesel fuel in 2008 (ref B). End note.) One field where the ROYG is pursuing use of natural gas is electricity generation. Hassan said that the ROYG will complete a 340 megawatt Marib 1 power station in April 2009, which will run on gas provided by the Yemen Gas Company. Deputy Minister of Planning and International Cooperation Mutaheer al-Abbasi added that the ROYG is working on another power station, Marib 2, and that once completed, both the Marib 1 and 2 power stations will generate about 800 MW of energy. A third smaller gas-run 30 MW power station in Block 10 in Hadhramout will also be constructed in the near future.

#### COMMENT

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¶8. (C) Along with its hopes that LPG will provide a domestic energy alternative, the ROYG is looking to natural gas production in 2009 as a palliative to Yemen's current economic ills, including declining oil revenues. Production

of natural gas and LPG may promote sustainable economic growth in Yemen in the short-term and reduce the costs of certain public expenditures, like electricity generation. However, it will not compensate for all the losses in the oil sector and its supplies, too, are limited. Yemen will need to diversify its economy away from oil and gas to other sustainable sources of income, including agriculture, fishing and tourism. END COMMENT.

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